

FINANCIAL STATEMENTS

Bridgeport Hospital Years Ended September 30, 2012 and 2011 with Report of Independent Auditors

Ernst & Young LLP



# Financial Statements

Years Ended September 30, 2012 and 2011

## **Contents**

| Report of Independent Auditors                     | 1 |
|--|---|
|  |   |
| Balance Sheets                                     | 2 |
| Statements of Operations and Changes in Net Assets | 4 |
| Statements of Cash Flows                           | 6 |
| Notes to Financial Statements                      | 7 |



Ernst & Young LLP Goodwin Square 225 Asylum Street Hartford, CT 06103-1506

Tel: +1 860 247 3100 Fax: +1 860 725 6040 www.ey.com

## Report of Independent Auditors

The Board of Directors Bridgeport Hospital

We have audited the accompanying balance sheets of Bridgeport Hospital (the "Hospital") as of September 30, 2012 and 2011, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Hospital's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bridgeport Hospital as of September 30, 2012 and 2011, and the results of its operations and its changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Notes 1 and 9 to the accompanying financial statements, in 2012 the Hospital changed its method of accounting for estimated insurance claims receivable and estimated insurance claims liabilities with the adoption of Accounting Standards Update 2012-24, *Presentation of Insurance claims and Related Insurance Recoveries*.

Ernst + Young LLP

December 21, 2012

# Balance Sheets

|   | September 30<br>2012 2011 |         |    |         |
|---|---------------------------|---------|----|---------|
|   | (In Thousands)            |         |    |         |
| Assets  |                           | ,       |    | ,       |
| Current assets:   |                           |         |    |         |
| Cash and cash equivalents   | \$                        | 15,511  | \$ | 37,123  |
| Short term investments  |                           | 41,452  |    | 18,455  |
| Accounts receivable for services to patients, less allowance for uncollectible accounts, charity and free care of approximately |                           |         |    |         |
| \$19,025 in 2012 and \$18,248 in 2011   |                           | 42,983  |    | 41,819  |
| Professional liabilities insurance recoveries receivable –  |                           |         |    |         |
| current portion   |                           | 11,424  |    | 10,076  |
| Other current assets  |                           | 15,781  |    | 10,790  |
| Assets limited as to use  |                           | 1,875   |    | 3,616   |
| Total current assets  |                           | 129,026 |    | 121,879 |
| Assets limited as to use  |                           | _       |    | 5,788   |
| Long-term investments   |                           | 21,778  |    | 20,685  |
| Interest in Bridgeport Hospital Foundation, Inc.  |                           | 55,179  |    | 48,588  |
| Professional liabilities insurance recoveries receivable – non-   |                           |         |    |         |
| current   |                           | 31,106  |    | 32,297  |
| Other assets  |                           | 24,759  |    | 17,502  |
| Property, plant and equipment:  |                           |         |    |         |
| Land and land improvements  |                           | 3,532   |    | 3,532   |
| Buildings and fixtures  |                           | 121,717 |    | 121,717 |
| Equipment   |                           | 269,245 |    | 245,237 |
|   |                           | 394,494 |    | 370,486 |
| Less accumulated depreciation   |                           | 283,721 |    | 264,952 |
|   |                           | 110,773 |    | 105,534 |
| Construction in progress  |                           | 17,163  |    | 18,530  |
|   |                           | 127,936 |    | 124,064 |
| Total assets  | \$                        | 389,784 | \$ | 370,803 |

|  | September 30   |            |  |  |  |
|--|----------------|------------|--|--|--|
|  | 2012 2011      |            |  |  |  |
|  | (In Thousands) |            |  |  |  |
| Liabilities and net assets                 |                |            |  |  |  |
| Current liabilities:                       |                |            |  |  |  |
| Accounts payable                           | \$ 10,208      | \$ 13,294  |  |  |  |
| Accrued expenses                           | 48,554         | 41,298     |  |  |  |
| Current portion of long-term debt          | 3,809          | 3,832      |  |  |  |
| Professional liabilities – current portion | 11,424         | 10,076     |  |  |  |
| Other current liabilities                  | 6,775          | 3,987      |  |  |  |
| Total current liabilities                  | 80,770         | 72,487     |  |  |  |
| Long-term debt, net of current portion     | 47,436         | 49,757     |  |  |  |
| Accrued pension obligation                 | 60,816         | 51,983     |  |  |  |
| Professional liabilities                   | 43,247         | 45,548     |  |  |  |
| Other long-term liabilities                | 34,257         | 32,214     |  |  |  |
| Total liabilities                          | 266,526        | 251,989    |  |  |  |
| Commitments and contingencies              |                |            |  |  |  |
| Net assets:                                |                |            |  |  |  |
| Unrestricted                               | 74,554         | 74,736     |  |  |  |
| Temporarily restricted                     | 28,832         | 24,997     |  |  |  |
| Permanently restricted                     | 19,872         | 19,081     |  |  |  |
| Total net assets                           | 123,258        | 118,814    |  |  |  |
|  |                |            |  |  |  |
|  |                |            |  |  |  |
| Total liabilities and net assets           | \$ 389,784     | \$ 370,803 |  |  |  |

See accompanying notes.

# Statements of Operations and Changes in Net Assets

|                                     | Years Ended  |            |  |  |  |
|-------------------------------------|--------------|------------|--|--|--|
|                                     | September 30 |            |  |  |  |
|                                     | 2012         | 2011       |  |  |  |
|                                     | (In The      | ousands)   |  |  |  |
| Operating revenue:                  |              |            |  |  |  |
| Net patient service revenue         | \$ 420,616   | \$ 409,615 |  |  |  |
| Other revenue                       | 16,075       | 7,707      |  |  |  |
| Total operating revenue             | 436,691      | 417,322    |  |  |  |
| Operating expenses:                 |              |            |  |  |  |
| Salaries and benefits               | 191,568      | 187,168    |  |  |  |
| Supplies and other expenses         | 172,897      | 162,819    |  |  |  |
| Depreciation and amortization       | 20,175       | 17,879     |  |  |  |
| Bad debts                           | 16,623       | 12,302     |  |  |  |
| Interest                            | 2,724        | 3,110      |  |  |  |
| Total operating expenses            | 403,987      | 383,278    |  |  |  |
| Income from operations              | 32,704       | 34,044     |  |  |  |
| Non-operating gains and losses, net | 2,164        | (38)       |  |  |  |
| Excess of revenue over expenses     | 34,868       | 34,006     |  |  |  |

(Continued on next page)

# Statements of Operations and Changes in Net Assets (continued)

|  | Years Ended<br>September 30   |                                      |  |
|--|---|--------------------------------------|--|
|  | 2012  | 2011                                 |  |
|  | (In The   | ousands)                             |  |
| Unrestricted net assets: Excess of revenue over expenses Transfer from Bridgeport Hospital Foundation, Inc. Net assets released from restrictions used for capital acquisitions  | \$ 34,868<br>1,119<br>522   | \$ 34,006<br>166<br>535              |  |
| Pension liability adjustment Transfers to Bridgeport Hospital and Healthcare Service, Inc. Transfers from Yale-New Haven Health Services Corporation (Decrease) increase in unrestricted net assets  | (24,104)<br>(13,487)<br>900<br>(182)  | (14,167)<br>(9,233)<br>900<br>12,207 |  |
| Temporarily restricted net assets:  Net changes in the interest in Bridgeport Hospital Foundation, Inc.:  Change in unrealized gains on investments  Net assets released from restrictions used for operations  Bequests, contributions, and grants  Net realized investment gains and losses  Net assets released from restrictions used for capital  Other changes in net assets  Transfers to Bridgeport Hospital  Net change in interest in Bridgeport Hospital Foundation, Inc.  Net assets released from restrictions used for operations  Change in unrealized gains and losses on investments  Bequests and contributions  Net realized investment gains and losses  Net assets released from restriction used for capital acquisition  Transfers from Bridgeport Hospital Foundation  Other changes in net assets | 714 (2,659) 6,536 771 (1,119) 688 (2,088) 2,843 (2,316) 1,218 - 828 (522) 2,088 (304) | (232)<br>(2,820)<br>5,390<br>446<br> |  |
| Increase in temporarily restricted net assets  | 3,835   | 1,735                                |  |
| Permanently restricted net assets:  Net change in the interest in Bridgeport Hospital Foundation, Inc.:  Bequests and contributions Increase in permanently restricted net assets Increase in net assets   | 791<br>791<br>4,444   | 1,773<br>1,773<br>15,715             |  |
| Net assets at beginning of year Net assets at end of year  | 118,814<br>\$ 123,258   | 103,099<br>\$ 118,814                |  |

See accompanying notes.

# Statements of Cash Flows

| Cash flows from operating activities Increase in net assets Adjustments to reconcile increase in net assets to net cash provided by operating activities: Change in net interest in Bridgeport Hospital Foundation, Inc. Depreciation and amortization Bad debts Bequests and contributions  20,175 17,879 12,302 12,302 12,302   |   | Years Ended<br>September 30 |                   |  |
|---|---|-----------------------------|-------------------|--|
| Cash flows from operating activities Increase in net assets \$ 4,444 \$ 15,715 Adjustments to reconcile increase in net assets to net cash provided by operating activities: Change in net interest in Bridgeport Hospital Foundation, Inc. Depreciation and amortization Bad debts  Cash flows from operating activities \$ 4,444 \$ 15,715  (6,591) (2,946)  17,879  12,302 |   |                             |                   |  |
| Increase in net assets  Adjustments to reconcile increase in net assets to net cash provided by operating activities:  Change in net interest in Bridgeport Hospital Foundation, Inc. Depreciation and amortization Bad debts  \$ 4,444 \$ 15,715  (6,591) (2,946  20,175 17,879  11,879  | or from an avating activities                                   | (In Ti                      | housands)         |  |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities:  Change in net interest in Bridgeport Hospital Foundation, Inc. Depreciation and amortization Bad debts  (6,591) (2,946 20,175 17,879 16,623 12,302   | · •   | \$ 4444                     | \$ 15 <i>7</i> 15 |  |
| Change in net interest in Bridgeport Hospital Foundation, Inc. (6,591) (2,946) Depreciation and amortization 20,175 17,879 Bad debts 16,623 12,302  | nts to reconcile increase in net assets to net cash provided by | ψ +,+++                     | ψ 15,/15          |  |
| Depreciation and amortization 20,175 17,879 Bad debts 16,623 12,302   |   | (( 501)                     | (2.046)           |  |
| Bad debts 16,623 12,302   |   |                             |                   |  |
|   |   | ,                           |                   |  |
| Requests and contributions  |   | 16,623                      |                   |  |
|   |   | - (2 ==2)                   | (233)             |  |
|   |   |                             | ,                 |  |
|   |   |                             |                   |  |
| Loss on refunding and refinancing of long-term debt 1,799 -   |   | ,                           |                   |  |
|   |   | 24,104                      | 14,167            |  |
| Changes in operating assets and liabilities:  |   | (15.505                     | (24.075)          |  |
|   |   |                             |                   |  |
|   |   | `                           |                   |  |
|   |   | ` '.                        |                   |  |
|   |   | ,                           | ,                 |  |
|   |   | (1,110                      | (499)             |  |
| Other current liabilities, accrued pension obligation, and other  |   | (10.440                     | (10.706)          |  |
| <del></del>   | <del>-</del>  |                             |                   |  |
| Net cash provided by operating activities 30,866 24,024   | provided by operating activities                                | 30,866                      | 24,024            |  |
| Cash flows from investing activities  |   |                             |                   |  |
|   | e in investments  | (21,537                     |                   |  |
|   |   |                             |                   |  |
|   |   | (22,641)                    | , , ,             |  |
| Net cash used in investing activities (36,649) (25,877)   | used in investing activities                                    | (36,649)                    | ) (25,877)        |  |
| Cash flows from financing activities  | ys from financing activities                                    |                             |                   |  |
| Proceeds from issuance of long-term debt 40,468 6,607   |   | 40,468                      | 6,607             |  |
| Proceeds from issuance of Term Loan 5,500 –   | from issuance of Term Loan                                      | 5,500                       | _                 |  |
| Refunding of long-term debt (47,145)  | g of long-term debt   | (47,145                     | ) –               |  |
| Payment of financing fees (780) –   | of financing fees   |                             |                   |  |
|   |   | (385                        | (3,108)           |  |
| Transfer to Bridgeport Hospital and Healthcare Service, Inc. (13,487) (9,233)   | o Bridgeport Hospital and Healthcare Service, Inc.              | (13,487)                    | (9,233)           |  |
| Bequests, contributions, and grants – 233   | contributions, and grants                                       |                             | 233               |  |
|   |   | (15,829                     | (5,501)           |  |
|   |   |                             |                   |  |
| Cash and cash equivalents, beginning of year 37,123 44,477  | cash equivalents, beginning of year                             | 37,123                      | 44.477            |  |
| Cash and cash equivalents, end of year \$ 15,511 \$ 37,123  |   |                             |                   |  |

#### Notes to Financial Statements

September 30, 2012

#### 1. Organization and Significant Accounting Policies

Bridgeport Hospital (the "Hospital") is a voluntary association incorporated under the General Statutes of the State of Connecticut. Bridgeport Hospital & Healthcare Services, Inc. ("BHHS"), a Connecticut not-for-profit corporation, is the sole member of the following not-for-profit, non-stock corporations: the Hospital, Bridgeport Hospital Foundation, Inc. (the "Foundation"), Southern Connecticut Health System Properties, Inc. ("Properties").

Yale-New Haven Health Services Corporation ("YNHHSC") is the sole member of BHHS and two similar organizations. Each of these three tax-exempt organizations serves as the sole member/parent for its respective delivery network of regional health care providers and related entities. Under the terms of an agreement with YNHHSC, BHHS and the Hospital continue to operate autonomously with separate boards, management and medical staff; however, YNHHSC approves the Hospital's strategic plans, operating and capital budgets, and Board appointments.

#### **Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectibles for accounts receivable for services to patients, and liabilities, including estimated receivables and payables to third-party payors and professional liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenue and expenses during the reporting period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

During fiscal 2012 the Hospital recorded a change in estimate of approximately \$4.1 million related to favorable third-party settlements and during fiscal 2011 recorded a change in estimate of approximately \$5.0 million related to favorable third-party settlements.

#### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those assets whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity. See Notes 5 and 6 for additional information relative to temporarily and permanently restricted net assets.

## Notes to Financial Statements (continued)

#### 1. Organization and Significant Accounting Policies (continued)

#### **Donor Restricted Gifts**

Unconditional promises to give cash and other assets are reported at fair value on the date the promise is received. All gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include investments in highly liquid financial instruments with original maturities of three months or less when purchased, which are not classified as assets limited as to use or restricted or held in the long-term investment portfolio.

Cash and cash equivalents are maintained with domestic financial institutions with deposits which exceed federally insured limits. It is the Hospital's policy to monitor the financial strength of these institutions.

#### **Accounts Receivable**

Patient accounts receivable result from the health care services provided by the Hospital. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts.

The amount of the allowances for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 2 for additional information relative to third-party payor programs.

#### **Investments**

The Hospital has designated all investments reported in the accompanying balance sheets as trading securities. As such, unrealized gains and losses are included in the excess of revenue and over expenses.

## Notes to Financial Statements (continued)

#### 1. Organization and Significant Accounting Policies (continued)

Investments in marketable equity securities with readily determinable fair market values and all investment in debt securities (marketable investments) are measured at fair value based on quoted market prices.

The Hospital participates in the Yale New Haven Health System Investment Trust (the "Trust"), a unitized Delaware Investment Trust created to pool assets for investment by the Health System non-profit entities. The Trust is comprised of two pools: the Long-Term Investment Pool ("L-TIP") and the Intermediate-Term Investment Pool ("I-TIP"). Governance of the Trust is performed by the Yale New Haven Health System Investment Committee.

Under the terms of the investment management agreement with the Trust, withdrawals of the Hospital's investment in the L-TIP can be made annually by the Hospital on July 1. Amounts withdrawn are subject to a schedule that allows larger withdrawals with longer notice periods. As of September 30, 2011, the Hospital can withdraw 100% of its investment in the L-TIP on July 1, 2012. Withdrawals of the Hospital's investment in the I-TIP in any amount can be made quarterly with 30 days advance notice.

Certain alternative investments (non-traditional, not-readily-marketable assets) are structured such that the Hospital holds limited partnership interests or pooled units and are accounted for under the equity method and utilizing Yale University's (the "University") reported net asset value per unit for measurement of the units' fair value for the Yale University investment.

Individual investment holdings within the alternative investments may, in turn, include investments in both non-marketable and market-traded securities. Valuations of those investments and, therefore, the Hospital's holdings may be determined by the investment manager or general partner. Fund of funds investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. The equity method reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the Hospital to securities lending, short sales of securities, and trading in futures and forwards contracts, options, swap contracts and other derivative products. While these financial instruments may contain varying degrees of risk, the Hospital's risk with respect to such transactions is limited to its capital balance in each investment. The financial statements of the investees are audited annually by independent auditors.

## Notes to Financial Statements (continued)

#### 1. Organization and Significant Accounting Policies (continued)

The Trust has an agreement with the University's investment office (the "Investment Management Agreement") which allows the University to manage a portion of the Trust's investments as part of the University's Endowment Pool (the "Pool"). Under the terms of the agreement for the years ended September 30, 2012 and 2011, the Trust transferred \$50.0 million and \$100.0 million, respectively, to the University in exchange for units in the Pool. The Trust's interest in the Pool is reported at fair value based on the net asset value per units held. The Pool invests in domestic equity, foreign equity, absolute return, private equity, real estate, fixed income and cash.

Under the terms of the investment management agreement with the University, withdrawals of the Trust's investment in the Pool can be made annually by the Trust on July 1. For withdrawals of amounts less than \$150.0 million or 75% of the Trust's investment in the Pool, \$100.0 million or 50% of the Trust's investment in the Pool, and \$50.0 million or 25% of the Trust's investment in the Pool, the advance notice period is set to a maximum of 180 days, 90 days, and 30 days, respectively, prior to the University's fiscal year ending June 30. For withdrawals greater than \$150.0 million or more than 75% of the Trust's investment in the Pool, the advance notice period is set to a maximum of 270 days prior to the University's fiscal year end of June 30.

In 2011 the Investment Management Agreement between the Trust and the University was modified to allow the Trust to obtain a cash advance, up to a maximum of \$75 million, on a monthly basis. For these advances, an interest charge of Prime plus two percent (2%) will be paid by the Trust. Repayments on the advances are made by the Trust by way of redemptions of a sufficient number of the Trust's units in the Endowment using the June 30th unit valuation. No advances have been requested or taken by the Trust.

Net realized gains and losses on investments, interest and dividends are included in excess of revenue over expenses unless the income or loss is restricted by donor or law. The change in unrealized gains and losses on all investments is included in the excess of revenue over expenses unless the income or loss is restricted by the donor.

#### **Assets Limited as to Use**

Assets limited as to use include assets held by trustee under bond indenture agreements. Amounts required to meet current liabilities are reported as current assets. These funds primarily consist of U.S. Government obligations, corporate obligations, mutual funds and money market funds. Changes in unrealized gains and losses are recorded in the excess of revenue over expenses.

## Notes to Financial Statements (continued)

#### 1. Organization and Significant Accounting Policies (continued)

#### **Inventories**

Inventories, included in prepaid expenses and other current assets, are stated at the lower of cost or market. The Hospital values its inventories using the first-in, first-out method.

#### **Deferred Financing Costs**

Deferred financing costs represent costs incurred to obtain long-term financing. Amortization of the costs is provided using a method that approximates the interest method over the remaining term of the applicable indebtedness. Refer to Note 7 for additional information relative to debt-related matters

#### **Benefits and Insurance**

The Hospital provides medical, dental, hospitalization and prescription drug benefits to employees for which it is self-insured. Liabilities have been accrued for claims, including claims incurred but not reported ("IBNRs"), which are based on Hospital-specific experience. At September 30, 2012 and 2011, the estimated liability for self-insured employee medical, prescription and other benefit claims and IBNRs aggregated approximately \$1.0 million and \$1.3 million, respectively, and is included in accrued expenses in the accompanying balance sheets.

The Hospital is effectively self-insured for workers' compensation claims. Estimated amounts are accrued for claims, including IBNRs, which are based on Hospital-specific experience. At September 30, 2012 and 2011, the estimated liability for self-insured workers' compensation claims and IBNRs, discounted at 3.0% in 2012 and 3.5% in 2011, aggregated approximately \$5.2 million and \$4.1 million, respectively, and is included in other long-term liabilities in the accompanying balance sheets.

#### **Property, Plant and Equipment**

Property, plant and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations. Depreciation of property, plant and equipment is computed by the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives ranging from 3 to 40 years.

## Notes to Financial Statements (continued)

#### 1. Organization and Significant Accounting Policies (continued)

#### Goodwill

In 2011, the Hospital acquired certain tangible and intangible assets of Cardiac Specialists, P.C. for \$1.6 million. As a result of the transaction, goodwill in the amount of approximately \$0.8 million was recorded and is included in other assets at September 30, 2012 and 2011.

The Hospital is required to perform an annual review of its goodwill for impairment. Based on the Hospital's review at September 30, 2012 and 2011, goodwill was determined not to be impaired.

#### **Excess of Revenue Over Expenses**

In the accompanying statements of operations and changes in net assets, excess of revenue over expenses is the performance indicator. Peripheral or incidental transactions are included in excess of revenue over expenses. Those gains and losses deemed by management to be closely related to ongoing operations are included in other revenue; other gains and losses are classified as non-operating gains and losses.

Consistent with industry practice, contributions of, or restricted to, property, plant, and equipment, net change in Interest in Bridgeport Hospital Foundation, Inc., transfers of assets to and from affiliates for other than goods and services, and pension and other post-retirement liability adjustments are excluded from the performance indicator but are included in the changes in net assets.

#### **Income Taxes**

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal or state income taxes on related income pursuant to Section 501(a) of the Code.

#### **Interest in Bridgeport Hospital Foundation, Inc.**

The Hospital recognizes its accumulated interest in the net assets held by the Foundation as interest in Bridgeport Hospital Foundation, Inc. The Hospital recognizes the periodic change in such interest in its statements of operations and changes in net assets (net change in interest in Bridgeport Hospital Foundation, Inc.).

## Notes to Financial Statements (continued)

#### 1. Organization and Significant Accounting Policies (continued)

#### **Asset Retirement Obligation**

The Hospital maintains an asset retirement obligation liability related to the estimated future costs to remediate environmental liabilities in certain buildings. The asset and asset retirement obligation liability were approximately \$0.4 million and \$12.8 million, respectively, at September 30, 2012 and approximately \$0.5 million and \$13.3 million, respectively, at September 30, 2011.

#### Reclassifications

Certain reclassifications have been made to the year ended September 30, 2011 balances previously reported in the balance sheets in order to conform with the year ended September 30, 2012 presentation.

#### **Change in Accounting Principle**

In August 2010, the Financial Accounting Standards Board ("FASB") issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, which provides clarification to companies in the health care industry on the accounting for and presentation of professional and similar contingent liabilities. Under the new guidance, these liabilities should not be presented net of insurance recoveries and an insurance recovery receivable should be recognized on the same basis as the liabilities, subject to the need for a valuation allowance for uncollectible accounts. The new guidance became effective for the Hospital as of October 1, 2011. The Hospital elected to retrospectively adopt the guidance as of October 1, 2010. The adoption resulted in an increase to current assets and liabilities of approximately \$10.1 million and an increase to long-term assets and liabilities of approximately \$32.3 million as of September 30, 2011. The adoption did not affect the Hospital's financial condition, net results of operations, or cash flows.

#### **New Accounting Pronouncements**

In July 2011, the FASB issued Accounting Standards Update No. 2011-07, "Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities" ("ASU 2011-07"). Under ASU 2011-07, provision for bad debts related to patient service revenue will be presented as a deduction from patient service revenue (net of contractual allowances and discounts) on the statement of operations with

## Notes to Financial Statements (continued)

#### 1. Organization and Significant Accounting Policies (continued)

enhanced footnote disclosure on the policies for recognizing revenue and assessing bad debts. The Hospital will adopt the presentation changes to the statement of operations for periods beginning after December 15, 2011.

In August 2010, the Financial Accounting Standards Board (FASB) issued amended guidance relating to measuring charity care for disclosures. The amended guidance requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. Separate disclosure of the amount of any cash reimbursements received for providing charity care must also be disclosed. The new disclosure requirements became effective for the Hospital on October 1, 2011 and are included in the accompanying financial statements for all periods presented.

#### 2. Accounts Receivable for Services to Patients and Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. The difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges and per diem payments. Net patient service revenue is affected by the Connecticut Disproportionate Share Hospital Program, includes premium revenue and is reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Third-party payor receivables included in other receivables were \$5.3 million and \$2.4 million at September 30, 2012 and 2011, respectively. Third-party payor receivables included in other long-term assets were \$2.8 million and \$1.9 million at September 30, 2012 and 2011, respectively. Third-party payor liabilities included in other current liabilities were \$6.1 million and \$4.0 million at September 30, 2012 and 2011, respectively. Third-party payor liabilities included in other long-term liabilities were \$14.9 million and \$13.8 million at September 30, 2012 and 2011, respectively.

The Hospital has established estimates based on information presently available, of amounts due to or from Medicare, Medicaid and third-party payors for adjustments to current and prior year payment rates, based on industry-wide and Hospital-specific data. Such amounts are included in

## Notes to Financial Statements (continued)

# 2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)

the accompanying balance sheets. Additionally, certain payors' payment rates for various years have been appealed by the Hospital. If the appeals are successful, additional income applicable to those years might be realized.

Revenue from Medicare and Medicaid programs accounted for approximately 36% and 18%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2012 and 36% and 17% for the year ended September 30, 2011. Inpatient discharges relating to Medicare and Medicaid programs accounted for approximately 39% and 32%, respectively, for the year ended September 30, 2012 and approximately 37% and 32%, respectively, for the year ended September 30, 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital. Cost reports for the Hospital, which serve as the basis for final settlement with government payors, have been settled by final settlement through 2007 for Medicare and 1994 for Medicaid. Other years remain open for settlement.

The significant concentrations of accounts receivable for services to patients include 21% from Medicare, 13% from Medicaid, and 66% from non-governmental payors at September 30, 2012 and 27% from Medicare, 13% from Medicaid, and 60% from non-governmental payors at September 30, 2011.

## Notes to Financial Statements (continued)

# 2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)

Net patient service revenue is comprised of the following for the years ended September 30, 2012 and 2011 (in thousands):

|   | 2012              | 2011              |
|---|-------------------|-------------------|
| Gross revenue from patients   | \$<br>1,390,798   | \$<br>1,300,540   |
| Deductions: Contractual allowances Charity and free care (at charges) | 942,001<br>28,181 | 861,347<br>29,578 |
| Net patient service revenue   | \$<br>420,616     | \$<br>409,615     |

#### 3. Uncompensated Care and Community Benefit Expense

The Hospital's commitment to community service is evidenced by services provided to the poor and benefits provided to the broader community. Services provided to the poor include services provided to persons who cannot afford healthcare because of inadequate resources and/or who are uninsured or underinsured.

The Hospital makes available free care programs for qualifying patients. In accordance with the established policies of the Hospital, during the registration, billing and collection process a patient's eligibility for free care funds is determined. For patients who were determined by the Hospital to have the ability to pay but did not, the uncollected amounts are bad debt expense. For patients who do not avail themselves of any free care program and whose ability to pay cannot be determined by the Hospital, care given but not paid for, is classified as charity care.

Together, charity care and bad debt expense represent uncompensated care. The estimated cost of total uncompensated care is approximately \$17.7 million and \$16.5 million for the years ended September 30, 2012 and 2011, respectively. The estimated cost of uncompensated care is based on the ratio of cost to charges, as determined by claims activity. The allocation between bad debt and charity care is determined based on management's analysis on the previous 12 months of hospital data. This analysis calculates the actual percentage of accounts written off or designated as bad debt vs. charity care while taking into account the total costs incurred by the hospital for each account analyzed.

## Notes to Financial Statements (continued)

#### 3. Uncompensated Care and Community Benefit Expense (continued)

The estimated cost of charity care provided was \$11.2 million and \$11.7 million for the years ended September 30, 2012 and 2011, respectively. The estimated cost of charity care is estimated using the ratio of cost to gross charges applied to the gross uncompensated cost associated with providing charity care.

For the years ended September 30, 2012 and 2011, bad debt expense, at charges, was \$16.6 million and \$12.3 million, respectively. The bad debt expense is multiplied by the ratio of cost to charges for purposes of inclusion in the total uncompensated care amount identified above.

The Connecticut Disproportionate Share Hospital Program ("CDSHP") was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part, by a 1% assessment on hospital net inpatient service revenue. During the years ended September 30, 2012 and 2011, the Hospital received \$20.0 million and \$5.0 million, respectively, in distributions from CDSHP, of which approximately \$12.6 million and \$3.5 million was related to charity care. The Hospital made payments into CDSHP of \$16.9 million and \$4.2 million for the years ended September 30, 2012 and 2011, respectively, for the 1% assessment.

Additionally, the Hospital provides benefits for the broader community which includes services provided to other needy populations that may not qualify as poor but need special services and support. Benefits include the cost of health promotion and education of the general community, interns and residents, health screenings, and medical research. The benefits are provided through the community health centers, some of which service non-English speaking residents, disabled children, and various community support groups. The Hospital voluntarily assists with the direct funding of several City of Bridgeport programs, including an economic development program and a youth initiative program.

In addition to the quantifiable services defined above, the Hospital provides additional benefits to the community through its advocacy of community service by employees. The Hospital's employees serve numerous organizations through board representation, membership in associations and other related activities. The Hospital also solicits the assistance of other healthcare professionals to provide their services at no charge through participation in various community seminars and training programs.

## Notes to Financial Statements (continued)

#### 4. Investments and Assets Limited as to Use

The composition of investments, including investments held by the Trust, and assets limited as to use is set forth in the following table (in thousands):

|   | 2012      | 2011              |
|---|-----------|-------------------|
| Money market funds                                | \$ 5,458  | <b>3</b> \$ 1,527 |
| Mutual Funds                                      | 145       | -                 |
| U.S. equity securities                            | 3,872     | 1,868             |
| U.S. equity securities – common collective trusts | 428       | 3 1,427           |
| International equity securities (a)               | 2,702     | 1,606             |
| Fixed income:                                     |           |                   |
| U.S. government                                   | 10,623    | <b>3</b> 13,825   |
| U.S. government – common collective trusts        | 8,897     | 7 2,105           |
| Corporate debt                                    | 285       | 10,460            |
| International government (b)                      | 3,960     | 1,224             |
| Commodities                                       | 45        | 5 43              |
| Hedge funds:                                      |           |                   |
| Absolute return (c)                               | 2,702     | 1,549             |
| Long/short equity (d)                             | 880       | 542               |
| Real estate (e)                                   | 669       | 435               |
| Interest in Yale University endowment pool (f)    | 24,439    | 11,933            |
| Total   | \$ 65,105 | \$ 48,544         |

- (a) Investments with external international equity and bond managers that are domiciled in the United States. Investment managers may invest in American or Global Depository Receipts (ADR, GDR) or in direct foreign securities.
- (b) Investments with external commodities futures manager.
- (c) Investment with external multi-strategy fund of funds manager investing in publicly traded equity and credit holdings which may be long or short positions.
- (d) Investment with an external long-short equity fund of funds manager with underlying portfolio investments consisting of publicly traded equity positions.
- (e) Investments with external direct real estate managers and fund of funds managers. Investment vehicles both closed end REITs and limited partnerships.
- (f) Yale University Endowment Pool maintains a diversified investment portfolio, through the use of external investment managers operating in a variety of investment vehicles, including separate accounts, limited partnerships and commingled funds. The pool combines an orientation to equity investments with an allocation to non-traditional asset classes such as an absolute return, private equity, and real assets.

The Hospital's ownership percentage of the Trust was approximately 7.0% and 3.5% as of September 30, 2012, and 2011, respectively. The Hospital's prorata portion of the Trust's investments are included in the above table. Primarily all of the above investments are deemed to be available for satisfying donor restrictions as they become due.

## Notes to Financial Statements (continued)

#### 5. Endowment

The Hospital's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Hospital has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (CUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and direction of the applicable donor gift instrument at the time of the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed by CUPMIFA. In accordance with CUPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Hospital and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Hospital; and (7) the investment and spending policies of the Hospital.

Changes in endowment net assets for the fiscal year ended September 30, 2012 are as follows (in thousands):

|  | Unre | estricted | nporarily<br>estricted | manently<br>stricted | Total        |
|--|------|-----------|------------------------|----------------------|--------------|
| Endowment net assets, beginning of year Investment returns:            | \$   | 87        | \$<br>15,274           | \$<br>19,081         | \$<br>34,442 |
| Investment returns.  Investment income  Net appreciation (realized and |      | 8         | 1,131                  | _                    | 1,139        |
| unrealized)  |      | 9         | 1,246                  | _                    | 1,255        |
| Total investment return  |      | 17        | 2,377                  | _                    | 2,394        |
| Appropriation of endowment assets for expenditure                      |      | -         | (104)                  | _                    | (104)        |
| Other changes:   |      |           |                        |                      |              |
| Contribution bequests  |      | -         | 83                     | 791                  | 874          |
| Endowment net assets, end of year                                      | \$   | 104       | \$<br>17,630           | \$<br>19,872         | \$<br>37,606 |

## Notes to Financial Statements (continued)

### 5. Endowment (continued)

Changes in endowment net assets for the fiscal year ended September 30, 2011 are as follows (in thousands):

|   | Unre | stricted | nporarily<br>estricted | manently<br>stricted | Total        |
|---|------|----------|------------------------|----------------------|--------------|
| Endowment net assets, beginning of year Investment returns: | \$   | 80       | \$<br>14,695           | \$<br>17,308         | \$<br>32,083 |
| Investment income Net appreciation (realized and            |      | 9        | 889                    | _                    | 898          |
| unrealized)   |      | (2)      | (245)                  | _                    | (247)        |
| Total investment return                                     |      | 7        | 644                    | _                    | 651          |
| Appropriation of endowment assets for expenditure           |      | -        | (97)                   | _                    | (97)         |
| Other changes: Contribution bequests                        |      | _        | 32                     | 1,773                | 1,805        |
| Endowment net assets, end of year                           | \$   | 87       | \$<br>15,274           | \$<br>19,081         | \$<br>34,442 |

From time to time, the fair value of assets associated with permanently restricted endowment funds may fall below the level determined under Connecticut UPMIFA.

#### 6. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets as of September 30 are available for the following purposes:

|                            | 2012         | 2011      |  |  |
|----------------------------|--------------|-----------|--|--|
|                            | (In Thousand |           |  |  |
| Indigent care              | \$ 17,945    | \$ 15,538 |  |  |
| Capital campaign           | _            | 16        |  |  |
| Other health care services | 10,887       | 9,443     |  |  |
|                            | \$ 28,832    | \$ 24,997 |  |  |

Permanently restricted net assets of approximately \$19.9 million and \$19.1 million for the years ended September 30, 2012 and 2011, respectively, consists of donor-restricted endowment principal. The income generated from permanently restricted funds is expendable for purposes designated by donors, including the support of various health care services.

## Notes to Financial Statements (continued)

7. Debt

A summary of debt at September 30 is as follows:

|  | 2012           | 2011      |  |
|--|----------------|-----------|--|
|  | (In Thousands) |           |  |
| Tax-exempt revenue bonds:                                    |                |           |  |
| Series A (fixed interest rates ranging from 3.50% to 6.625%) | \$ -           | \$ 11,390 |  |
| Series C (fixed interest rates ranging from 3.75% to 5.375%) | _              | 35,755    |  |
| Series D (fixed interest rates ranging from 2.00% to 5.00%)  | 36,415         | _         |  |
| Term loan (3.22% fixed interest rate)                        | 5,543          | 6,127     |  |
| Term loan (1.66% fixed interest rate)                        | 5,235          | _         |  |
| Capital lease obligation                                     | 168            | 317       |  |
|  | 47,361         | 53,589    |  |
| Add: premium   | 3,884          | _         |  |
| Less: current portion  | (3,809)        | (3,832)   |  |
|  | \$ 47,436      | \$ 49,757 |  |

The Hospital's Series A and C tax-exempt revenue bonds were issued through the State of Connecticut Health and Educational Facilities Authority ("CHEFA") under a Master Trust Indenture. The bonds were due serially or via mandatory sinking fund redemptions through July 1, 2025. The bonds were collateralized by a pledge of the gross receipts of the Hospital and the Foundation (the "Obligated Group") and a first mortgage on substantially all property, plant and equipment of the Hospital. The Master Trust Indenture also placed certain limits on the incurrence of additional borrowings of the Obligated Group and required the Obligated Group to satisfy certain measures of financial performance while the revenue bonds were outstanding. The Series A and C bonds were insured by commercial bond insurers to maturity.

In November 2010, the Hospital obtained a \$6.6 million term loan from CHEFA. The proceeds of the loan are to be used for the purchase and installation of energy savings equipment and various renovations and improvements to the Hospital's infrastructure. The loan is to be paid in monthly installments over 10 years at a fixed interest rate of 3.22%.

## Notes to Financial Statements (continued)

#### 7. Debt (continued)

In May 2012, the Hospital's Series D tax-exempt revenue bonds were issued through CHEFA under a Master Trust Indenture for approximately \$36.4 million, with coupons ranging from 2.0% to 5.0%, and a final maturity of July 2025. The proceeds, including a premium of approximately \$4.1 million, were held in an escrow account and used for the retirement of the outstanding Series A and C revenue bonds and to pay for certain bond issuance costs of approximately \$0.8 million. The bond premium is being amortized using the effective interest method and is included in interest expense in the accompanying statement of operations and changes in net assets. In connection with the refunding and refinancing, the Hospital recognized a loss in 2012 of approximately \$1.8 million principally related to the write-off of deferred financing costs.

In June 2012, the Hospital obtained a \$5.5 million term loan from CHEFA. The loan is to be paid in monthly installments over 5 years at a fixed rate of 1.66% with the proceeds to be used for medical and cafeteria equipment. The loan is secured by the equipment purchased with the proceeds of the loan.

Scheduled principal payments on all debt are as follows (in thousands):

|  | <br>Debt  | I  | apital<br>Lease<br>igations          |
|--|---|----|--------------------------------------|
| 2013<br>2014<br>2015<br>2016<br>2017<br>Thereafter | \$<br>3,736<br>3,949<br>4,078<br>4,167<br>4,035<br>27,228<br>47,193 | \$ | 80<br>47<br>47<br>8<br>-<br>-<br>182 |
| Less: interest Total capital lease obligation      |   | \$ | (14)<br>168                          |

Cash paid for interest for the years ended September 30, 2012 and 2011 approximated \$2.7 million and \$3.1 million, respectively.

## Notes to Financial Statements (continued)

#### 7. Debt (continued)

In connection with the Series D bonds, the Hospital is required to maintain certain financial covenants. At September 30, 2012 and 2011 the Hospital was in compliance with its financial debt covenants.

Assets recorded under the capital lease obligations totaled \$0.2 million and \$0.3 million as of September 30, 2012 and 2011, respectively. Accumulated depreciation for the capital lease obligations totaled \$0.1 million for September 30, 2012 and 2011, respectively.

#### 8. Retirement Benefit Plans

The Hospital and certain other affiliates of BHHS have a defined benefit pension plan covering substantially all employees. The benefits are based on years of service and employees' average compensation as defined by the plan documents. The Hospital and affiliates of BHHS make contributions in amounts sufficient to meet the required benefits to be paid to plan participants as they become due as required under the Employee Retirement Income Security Act of 1974.

On June 30, 2006, the Hospital and certain other affiliates of BHHS froze their defined benefit plan. On October 1, 2006 the Hospital and certain other affiliates of BHHS instituted a defined contribution plan covering substantially all employees. The Hospital matches employee 403(b) contributions on a bi-weekly basis, as defined by the defined contribution plan documents, and provides an annual contribution to the employees' accounts based on each employee's year of service and compensation. The Hospital expensed approximately \$9.6 million and \$10.1 million relating to the defined contribution plan for the years ended September 30, 2012 and 2011, respectively. Amounts due to the defined contribution plan amounted to \$4.8 million and \$5.8 million at September 30, 2012 and 2011, respectively, and are included in accrued expenses.

## Notes to Financial Statements (continued)

### 8. Retirement Benefit Plans (continued)

The following table sets forth the funded status of the Hospital and affiliates of BHHS's plans as of September 30:

|  | Pension Benefits |           |              |  |  |
|--|------------------|-----------|--------------|--|--|
|  |                  | 2012      | 2011         |  |  |
|  |                  | (In Tho   | usands)      |  |  |
| Change in benefit obligation                 |                  | ·         | ,            |  |  |
| Benefit obligation, beginning of year        | \$               | (166,112) | \$ (159,195) |  |  |
| Interest cost                                |                  | (8,464)   | (8,423)      |  |  |
| Actuarial loss                               |                  | (30,864)  | (4,026)      |  |  |
| Benefits paid                                |                  | 5,914     | 5,532        |  |  |
| Benefit obligation, end of year              | \$               | (199,526) | \$ (166,112) |  |  |
| Change in plan assets                        |                  |           |              |  |  |
| Fair value of plan assets, beginning of year | \$               | 107,905   | \$ 103,733   |  |  |
| Actual return on plan assets                 |                  | 14,665    | (2,276)      |  |  |
| Employer contribution                        |                  | 15,829    | 11,979       |  |  |
| Benefits paid                                |                  | (5,914)   | (5,532)      |  |  |
| Fair value of plan assets, end of year       | \$               | 132,485   | \$ 107,904   |  |  |
| Accrued obligation                           | \$               | (67,041)  | \$ (58,208)  |  |  |
| Net amounts allocated to Parent              | Φ                | 6,225     | 6,225        |  |  |
|  | •                |           |              |  |  |
| Accrued pension obligation                   | <b>D</b>         | (60,816)  | \$ (51,983)  |  |  |

The accrued benefit obligation allocated to Parent is determined using the participant data at the time the Plan was frozen.

The actuarial loss in 2012 and 2011 primarily relates to a decrease in the discount rate used to measure the benefit obligation.

## Notes to Financial Statements (continued)

#### 8. Retirement Benefit Plans (continued)

## **Accumulated Benefit Obligation**

The projected benefit obligation, accumulated benefit obligations and fair value of plan assets were as follows for September 30:

|                                | 2012       | 2011       |
|--------------------------------|------------|------------|
|                                | (In The    | ousands)   |
| Projected benefit obligation   | \$ 199,526 | \$ 166,112 |
| Accumulated benefit obligation | 199,526    | 166,112    |
| Fair value of plan assets      | 132,485    | 107,904    |

The following table provides the components of the net periodic benefit cost for the plan for the years ended September 30:

|   | Pension Benefits |         |      |         |  |  |
|---|------------------|---------|------|---------|--|--|
|   | 2012 2011        |         |      |         |  |  |
|   |                  | (In Tho | usai | nds)    |  |  |
| Components of net periodic benefit cost |                  |         |      |         |  |  |
| Interest cost                           | \$               | 8,464   | \$   | 8,423   |  |  |
| Expected rate of return on plan assets  |                  | (9,269) |      | (8,761) |  |  |
| Recognized net actuarial loss           |                  | 1,365   |      | 896     |  |  |
| Net periodic benefit cost               | \$               | 560     | \$   | 558     |  |  |

## **Assumptions**

Weighted-average assumptions used to determine benefit obligations at September 30 are as follows:

|               | Pension | Benefits |
|---------------|---------|----------|
| Discount rate | 2012    | 2011     |
| Discount rate | 4.0%    | 5.2%     |

## Notes to Financial Statements (continued)

### 8. Retirement Benefit Plans (continued)

Weighted-average assumptions used to determine net periodic benefit cost for years ended September 30 are as follows:

|  | Pension Benefits |      |  |  |  |
|--|------------------|------|--|--|--|
|  | 2012             | 2011 |  |  |  |
| Discount rate                            | 5.2%             | 5.4% |  |  |  |
| Expected long-term return on plan assets | 6.75             | 6.75 |  |  |  |

#### **Measurement Date**

The measurement date used to determine pension benefits is September 30 in 2012 and 2011.

#### **Plan Assets**

The asset allocations of the Hospital's pension plan at September 30 are as follows:

|                         | Target<br>Allocation |      | entage<br>n Assets |  |
|-------------------------|----------------------|------|--------------------|--|
|                         | 2013                 |      |                    |  |
| Asset category:         | •                    |      |                    |  |
| Equity securities       | 25%                  | 22%  | 14%                |  |
| Debt securities         | 55                   | 61   | 73                 |  |
| Alternative investments | 20                   | 17   | 13                 |  |
| Total                   | 100%                 | 100% | 100%               |  |

The pension assets carried at fair value as of September 30, 2012 and 2011 are classified in the following tables in one of the three categories described in footnote 15 (in thousands):

|  | Level 1   | Level 2     | Level 3   | Total      |
|--|-----------|-------------|-----------|------------|
| Money market funds                         | \$ 4,558  | <b>\$</b> - | \$ -      | \$ 4,558   |
| U.S. equity securities                     | 27,271    | _           | _         | 27,271     |
| International equity securities            | _         | _           | 7,471     | 7,471      |
| Fixed income:                              |           |             |           |            |
| U.S. government                            | 33,999    | 4,146       | _         | 38,145     |
| Corporate debt                             | 216       | 37,047      | _         | 37,263     |
| International government                   | 324       | _           | _         | 324        |
| Private equity                             | _         | _           | 17,453    | 17,453     |
| Total investments as of September 30, 2012 | \$ 66,368 | \$ 41,193   | \$ 24,924 | \$ 132,485 |

## Notes to Financial Statements (continued)

#### 8. Retirement Benefit Plans (continued)

|  | L    | Level 1 |    | Level 2 |    | Level 3 | Total         |
|--|------|---------|----|---------|----|---------|---------------|
| Money market funds                         | \$   | 3,812   | \$ | _       | \$ | _       | \$<br>3,812   |
| U.S. equity securities                     |      | 14,623  |    | _       |    | _       | 14,623        |
| International equity securities            |      | _       |    | _       |    | 5,312   | 5,312         |
| Fixed income:                              |      |         |    |         |    |         |               |
| U.S. government                            | 3    | 31,939  |    | 7,719   |    | _       | 39,658        |
| Corporate debt                             |      | 170     |    | 34,429  |    | _       | 34,599        |
| International government                   |      | 360     |    | _       |    | _       | 360           |
| Private equity                             |      | _       |    | _       |    | 9,540   | 9,540         |
| Total investments as of September 30, 2011 | \$ 3 | 50,904  | \$ | 42,148  | \$ | 14,852  | \$<br>107,904 |

The composition and presentation of financial assets categorized as Level 3 investments in the tables above for the fiscal year ended September 30, 2012 and 2011 are as follows (in thousands):

|   | Private<br>Equity | International Equity |       |    | Total  |
|---|-------------------|----------------------|-------|----|--------|
| Beginning balance as of October 1, 2011                   | \$<br>9,540       | \$                   | 5,312 | \$ | 14,852 |
| Realized gains  | 2,930             |                      | _     |    | 2,930  |
| Unrealized gains (losses)                                 | (13)              |                      | 1,357 |    | 1,344  |
| Purchases, sales, issuance, settlements, transfers, other | 4,996             |                      | 802   |    | 5,798  |
| Ending balance as of September 30, 2012                   | \$<br>17,453      | \$                   | 7,471 | \$ | 24,924 |

|  | Private<br>Equity | rnational<br>quity   | Hedge<br>Funds | Total                 |
|--|-------------------|----------------------|----------------|-----------------------|
| Beginning balance as of October 1, 2010<br>Realized gains  | \$<br>9,330       | \$<br>_<br>_         | \$<br>2,993    | \$<br>12,323          |
| Unrealized gains (losses)  | 65                | (688)                | (93)           | (716)                 |
| Purchases, sales, issuance, settlements, transfers, other<br>Ending balance as of September 30, 2011 | \$<br>9,540       | \$<br>6,000<br>5,312 | \$<br>(2,900)  | \$<br>3,245<br>14,852 |

The Hospital's investment strategy for its pension assets, balances the liquidity needs of the pension plan with the long-term return goals necessary to satisfy future pension obligations. The target asset allocation seeks to capture the equity premium granted by the capital markets over the long-term while ensuring security of principal to meet near term expenses and obligations through the fixed income allocation. The allocations of the investment pool to various sectors of the markets are designed to reduce volatility in the portfolio.

## Notes to Financial Statements (continued)

#### 8. Retirement Benefit Plans (continued)

The Hospital's pension portfolio return assumption of 6.75% is based on the targeted weighted-average return of comparative market indices for the asset classes represented in the portfolio and discounted for pension expenses.

#### **Cash Flows**

*Contributions:* The Hospital and its affiliates expected contribution to the defined benefit pension plan in fiscal year 2013 is approximately \$6.5 million.

Estimated future benefit payments: The Hospital and its affiliates expect to pay the following benefit payments as appropriate in thousands:

| 2013         | \$ | 7,015 |
|--------------|----|-------|
| 2014         |    | 7,309 |
| 2015         |    | 7,551 |
| 2016         |    | 7,959 |
| 2017         |    | 8,445 |
| 2018 to 2023 | 5  | 1,725 |

In addition, certain employees participate in a Hospital sponsored nonqualified pension benefit program. Included in other long-term liabilities in the accompanying balance sheets at September 30, 2012 and 2011 is approximately \$0.5 million and \$1.2 million, respectively, related to the obligation for the nonqualified benefits. The Hospital has established a trust with fair values of approximately \$0.5 million and \$1.1 million at September 30, 2012 and 2011, respectively, to fund the obligation. Such amounts are included in other assets in the accompanying balance sheets.

#### 9. Professional Liability and Self-Insurance Arrangements

Yale-New Haven Hospital ("YNHH") and a number of academic medical centers are shareholders in The Medical Center Insurance Company, Ltd. (the "Captive"). The Captive was formed to insure for professional and comprehensive general liability risks of its shareholders and certain affiliated entities of the shareholders. On October 1, 1997, the Hospital was added to the YNHH program as an additional insured. The Captive and its wholly-owned subsidiary write direct insurance and reinsurance for varying levels of per claim limit exposure. The Captive has reinsurance coverage from outside reinsurers for amounts above the per claim limits. Premiums are based on modified claims made coverage and are actuarially determined based on actual experience of the Hospital, and the Captive. The Hospital pays insurance premiums to YNHHSC.

## Notes to Financial Statements (continued)

#### 9. Professional Liability and Self-Insurance Arrangements (continued)

The estimate for modified claims-made professional liabilities and the estimate for incidents that have been incurred but not reported aggregated approximately \$54.7 million and \$55.6 million at September 30, 2012 and 2011, respectively. The undiscounted estimate for incidents that have been incurred but not reported aggregated approximately \$13.9 million and \$15.5 million at September 30, 2012 and 2011, respectively, and is included in professional insurance liabilities in the accompanying consolidated statements of financial position at the actuarially determined present value of approximately \$12.1 million and \$13.3 million, respectively, based on a discount rate of 3.0% and 3.5% for the years ended September 30, 2012 and 2011, respectively.

The Hospital has recorded related insurance recoveries receivable of approximately \$42.5 million and \$42.4 million at September 30, 2012 and 2011, respectively, in consideration of the expected insurance recoveries for the total discounted modified claims-made insurance. The current portion of professional liabilities and the related insurance receivable represents an estimate of expected settlements and insurance recoveries over the next 12 months.

The Hospital's estimates for professional insurance liabilities are based upon complex actuarial calculations which utilize factors such as historical claims experience for the Hospital and related industry factors, trending models, estimates for the payment patterns of future claims and present value discount factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions to estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known or when changes are anticipated.

#### 10. Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Hospital. Such lawsuits and claims are either specifically covered by insurance as explained in Note 9 or are deemed to be immaterial. While the outcome of these lawsuits cannot be determined at this time, management believes that any loss which may arise from these actions will not have a material adverse effect on the financial position or results of operations of the Hospital.

## Notes to Financial Statements (continued)

#### 10. Commitments and Contingencies (continued)

The Hospital has an irrevocable letter of credit with a bank to provide coverage to the State of Connecticut for workers compensation claims. There were no amounts outstanding under this letter of credit during fiscal years 2012 and 2011.

The Hospital has obtained a surety bond to provide coverage to the State of Connecticut for unemployment compensation in 2012 and 2011. There are no amounts outstanding during fiscal years 2012 and 2011.

The Hospital has various lease agreements. Lease expense for the fiscal years 2012 and 2011 was approximately \$2.9 million and \$3.1 million, respectively. Future minimum payments under these leases are as follows:

| 2013       | \$ 2,837  |
|------------|-----------|
| 2014       | 2,590     |
| 2015       | 1,628     |
| 2016       | 1,558     |
| 2017       | 1,013     |
| Thereafter | 9,098     |
|            | \$ 18,724 |

#### **Proposed Acquisition**

The Hospital entered into an agreement on August 12, 2012 to acquire certain assets and assume certain liabilities of a Connecticut radiology practice for approximately \$16 million. A regulatory review by the Connecticut Office of Health Care Access is currently in progress. Upon completion of the regulatory review of the transaction will be completed.

## Notes to Financial Statements (continued)

## 11. Functional Expenses

The Hospital provides general health care services to residents within its geographic location, including pediatric care, cardiac catheterization and outpatient surgery. Net expenses related to providing these services for the year ended September 30 are as follows:

|                            | 2012       | 2011       |
|----------------------------|------------|------------|
|                            | (In Th     | ousands)   |
| Health care services       | \$ 315,110 | \$ 297,515 |
| General and administrative | 88,877     | 85,763     |
|                            | \$ 403,987 | \$ 383,278 |

## 12. Related Party Transactions

The Hospital provides management services and purchases support and management services and participates in service contracts, lease agreements and other consulting contracts with affiliated organizations. The related amounts for the years ended September 30 were as follows:

|   | 2012           |        |    | 2011   |
|---|----------------|--------|----|--------|
|   | (In Thousands) |        |    | nds)   |
| Services to affiliates:                       |                |        |    |        |
| Northeast Medical Group                       | \$             | 229    | \$ | 529    |
| Southern Connecticut Health System Properties |                | 15     |    | 15     |
| BHHS  |                | 10     |    | 10     |
| Yale-New Haven Hospital                       | 4,833          |        |    | _      |
|   | \$             | 5,087  | \$ | 554    |
| Services from affiliates:                     |                |        |    |        |
| Yale-New Haven Hospital                       | \$             | 3,226  | \$ | 3,193  |
| BHHS  |                | 20     |    | 20     |
| Southern Connecticut Health System Properties |                | 5      |    | 136    |
| Northeast Medical Group                       |                | 19,890 |    | 14,277 |
| YNHHSC  |                | 42,995 |    | 28,729 |
|   | \$             | 66,136 | \$ | 46,355 |

## Notes to Financial Statements (continued)

#### 12. Related Party Transactions (continued)

The Hospital purchased certain services for the year ended September 30 from YNHHSC as follows:

|  |                | 2012   |    | 2011   |
|--|----------------|--------|----|--------|
|  | (In Thousands) |        |    | nds)   |
| Operating expenses:                          |                |        |    |        |
| Professional and general liability insurance | \$             | 2,182  | \$ | 5,830  |
| Information systems                          |                | 15,798 |    | 3,466  |
| System business office                       |                | 7,050  |    | 6,357  |
| Other business services                      |                | 20,147 |    | 18,906 |
|  | \$             | 45,177 | \$ | 34,559 |

The Hospital funds certain capital assets purchased by YNHHSC. Included in prepaid expenses and other assets were approximately \$18.8 million at September 30, 2012 and approximately \$9.2 million at September 30, 2011.

Included in depreciation and amortization expense for the years ended September 30, 2012 and 2011 is approximately \$1.0 million and \$0.3 million, respectively, of costs allocated from YNHHSC for shared capital projects.

Accounts receivable from and payable to related organizations included in prepaid expenses and other assets, and accrued expenses, respectively, in the accompanying balance sheets for the years ended September 30 are as follows:

|   |                | 2012   |    | 2011   |
|---|----------------|--------|----|--------|
|   | (In Thousands) |        |    |        |
| Accounts receivable:                          |                |        |    |        |
| Southern Connecticut Health System Properties | \$             | 55     | \$ | 23     |
| Bridgeport Hospital Foundation                |                | 769    |    | 353    |
| Yale-New Haven Hospital                       |                | 1,501  |    | _      |
| Northeast Medical Group                       |                | _      |    | 2,780  |
|   | \$             | 2,325  | \$ | 3,156  |
| Accounts payable:                             |                |        |    |        |
| BHHS  | \$             | 2,763  | \$ | 6,168  |
| YNHHSC  |                | 14,485 |    | 10,004 |
| Northeast Medical Group                       |                | 2,430  |    | _      |
| Yale-New Haven Hospital                       |                | _      |    | 362    |
|   | \$             | 19,678 | \$ | 16,534 |

## Notes to Financial Statements (continued)

#### 13. Other Revenue

Other revenue consisted of the following (in thousands):

|  | Year Ended<br>September 30 |                                   |    |       |  |
|--|----------------------------|-----------------------------------|----|-------|--|
|  | 2012 2                     |                                   |    | 2011  |  |
| Cafeteria and vending                                | \$                         | 1,793                             | \$ | 1,637 |  |
| Parking income                                       |                            | 1,409                             |    | 1,436 |  |
| Net assets released from restrictions for operations |                            | <b>2,316</b> 1,831 <b>5,901</b> - |    |       |  |
| Pediatric ancillary services                         |                            |                                   |    |       |  |
| Electronic health records incentive payment          |                            | 1,725                             |    |       |  |
| Other  |                            | <b>2,931</b> 2,803                |    |       |  |
|  | \$                         | 16,075                            | \$ | 7,707 |  |

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act ("HITECH"). The provisions were designed to increase the use of electronic health record ("EHR") technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. In subsequent years, providers must demonstrate meaningful use of such technology to qualify for additional Medicaid incentive payments. Hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

The Hospital uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the Hospital is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. EHR incentive payment revenue for Medicaid totaling \$1.7 million for the year ended September 30, 2012, is included in other revenue in the accompanying 2012 consolidated statement of operations. Income from incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, the Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

## Notes to Financial Statements (continued)

#### 14. Non-Operating Gains and Losses, Net

Non-operating gains and losses consisted of the following (in thousands)

|  | Year Ended<br>September 30 |         |    |       |  |  |
|--|----------------------------|---------|----|-------|--|--|
|  | 2012                       |         |    | 2011  |  |  |
| Net realized gains and investment income             | \$                         | 790     | \$ | 657   |  |  |
| Change in unrealized gains and losses on investments | <b>1,335</b> (417)         |         |    | (417) |  |  |
| Net changes in interest in Bridgeport Hospital       |                            |         |    |       |  |  |
| Foundation, Inc.                                     |                            | 1,838   |    | (278) |  |  |
| Loss on refunding and refinancing of debt            |                            | (1,799) |    |       |  |  |
|  | \$                         | 2,164   | \$ | (38)  |  |  |

#### 15. Fair Value Measurements

In determining fair value, the Hospital utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Hospital also considers nonperformance risk in the overall assessment of fair value.

ASC 820-10, *Fair Value Measurements*, establishes a three tier valuation hierarchy for fair value disclosure purposes. This hierarchy is based on the transparency of the inputs utilized for the valuation. The three levels are defined as follows:

- Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. This established hierarchy assigns the highest priority to Level 1 assets.
- Level 2: Observable inputs that are based on data not quoted in active markets, but corroborated by market data.
- Level 3: Unobservable inputs that are used when little or no market data is available. The Level 3 inputs are assigned the lowest priority.

## Notes to Financial Statements (continued)

## 15. Fair Value Measurements (continued)

Financial assets carried at fair value as of September 30, 2012 and 2011 are classified in the following tables in two of the three categories described above (in thousands):

|   | L         | evel 1   | J        | Level 2 | 1        | Level 3                              | Total  |
|---|-----------|--|----------|---------|----------|--------------------------------------|--|
| Cash and cash equivalents   | <b>\$</b> | 15,511   | \$       | _       | \$       | _                                    | \$<br>15,511   |
| Money market funds  |           | 5,458  |          | _       |          | _                                    | 5,458  |
| Mutual Funds  |           | 145  |          | _       |          | _                                    | 145  |
| U.S. equity securities  |           | 3,872  |          | _       |          | _                                    | 3,872  |
| International equity securities   |           | 2,702  |          | _       |          | _                                    | 2,702  |
| Fixed income  |           |  |          |         |          |                                      |  |
| U.S. government   |           | 10,623   |          | _       |          | _                                    | 10,623   |
| Corporate debt  |           | 285  |          | _       |          | _                                    | 285  |
| International government  |           | 2,344  |          | 1,616   |          | _                                    | 3,960  |
| Interest in Yale University endowment pool  |           | _  |          | _       |          | 24,439                               | 24,439   |
| Investments at fair value   | \$ 4      | 40,940   | \$       | 1,616   | \$       | 24,439                               | <br>66,995   |
|   |           |  |          |         |          |                                      |  |
| Common collective trusts  |           |  |          |         |          |                                      | 9,325  |
| Alternative investments   |           |  |          |         |          |                                      | <br>4,296  |
| Investments not at fair value   |           |  |          |         |          |                                      | <br>13,621   |
| Total investments as of September 30, 2012  |           |  |          |         |          |                                      | \$<br>80,616   |
|   |           |  |          |         |          |                                      |  |
|   | L         | evel 1   | ]        | Level 2 | I        | Level 3                              | Total  |
| Cash and cash equivalents   |           |  | <u> </u> | Level 2 | <u> </u> | Level 3                              | \$<br>   |
| Cash and cash equivalents Money market funds  |           | evel 1<br>37,123<br>1,527                                      |          | Level 2 |          | Level 3                              | \$<br><b>Total</b> 37,123 1,527  |
|   |           | 37,123   |          | Level 2 |          | Level 3                              | \$<br>37,123   |
| Money market funds  |           | 37,123<br>1,527  |          | Level 2 |          | Level 3                              | \$<br>37,123<br>1,527  |
| Money market funds U.S. equity securities   |           | 37,123<br>1,527<br>1,868                                       |          | Level 2 |          | Level 3                              | \$<br>37,123<br>1,527<br>1,868   |
| Money market funds U.S. equity securities International equity securities Fixed income U.S. government  | \$ :      | 37,123<br>1,527<br>1,868<br>1,606                              |          | Level 2 |          | Level 3                              | \$<br>37,123<br>1,527<br>1,868<br>1,606  |
| Money market funds U.S. equity securities International equity securities Fixed income U.S. government Corporate debt   | \$ :      | 37,123<br>1,527<br>1,868<br>1,606<br>13,825<br>10,460          |          | Level 2 |          | Level 3                              | \$<br>37,123<br>1,527<br>1,868<br>1,606<br>13,825<br>10,460  |
| Money market funds U.S. equity securities International equity securities Fixed income U.S. government Corporate debt International government  | \$ :      | 37,123<br>1,527<br>1,868<br>1,606                              |          | Level 2 |          | -<br>-<br>-<br>-<br>-                | \$<br>37,123<br>1,527<br>1,868<br>1,606<br>13,825<br>10,460<br>1,224                                       |
| Money market funds U.S. equity securities International equity securities Fixed income U.S. government Corporate debt International government Interest in Yale University endowment pool   | \$        | 37,123<br>1,527<br>1,868<br>1,606<br>13,825<br>10,460<br>1,224 | \$       | Level 2 | \$       | -<br>-<br>-<br>-<br>-<br>-<br>11,933 | \$<br>37,123<br>1,527<br>1,868<br>1,606<br>13,825<br>10,460<br>1,224<br>11,933                             |
| Money market funds U.S. equity securities International equity securities Fixed income U.S. government Corporate debt International government  | \$        | 37,123<br>1,527<br>1,868<br>1,606<br>13,825<br>10,460          |          | Level 2 |          | -<br>-<br>-<br>-<br>-                | \$<br>37,123<br>1,527<br>1,868<br>1,606<br>13,825<br>10,460<br>1,224                                       |
| Money market funds U.S. equity securities International equity securities Fixed income U.S. government Corporate debt International government Interest in Yale University endowment pool Investments at fair value   | \$        | 37,123<br>1,527<br>1,868<br>1,606<br>13,825<br>10,460<br>1,224 | \$       | Level 2 | \$       | -<br>-<br>-<br>-<br>-<br>-<br>11,933 | \$<br>37,123<br>1,527<br>1,868<br>1,606<br>13,825<br>10,460<br>1,224<br>11,933<br>79,566                   |
| Money market funds U.S. equity securities International equity securities Fixed income U.S. government Corporate debt International government Interest in Yale University endowment pool Investments at fair value Common collective trusts                          | \$        | 37,123<br>1,527<br>1,868<br>1,606<br>13,825<br>10,460<br>1,224 | \$       | Level 2 | \$       | -<br>-<br>-<br>-<br>-<br>-<br>11,933 | \$<br>37,123<br>1,527<br>1,868<br>1,606<br>13,825<br>10,460<br>1,224<br>11,933<br>79,566                   |
| Money market funds U.S. equity securities International equity securities Fixed income U.S. government Corporate debt International government Interest in Yale University endowment pool Investments at fair value  Common collective trusts Alternative investments | \$        | 37,123<br>1,527<br>1,868<br>1,606<br>13,825<br>10,460<br>1,224 | \$       | Level 2 | \$       | -<br>-<br>-<br>-<br>-<br>-<br>11,933 | \$<br>37,123<br>1,527<br>1,868<br>1,606<br>13,825<br>10,460<br>1,224<br>11,933<br>79,566<br>3,532<br>2,569 |
| Money market funds U.S. equity securities International equity securities Fixed income U.S. government Corporate debt International government Interest in Yale University endowment pool Investments at fair value Common collective trusts                          | \$        | 37,123<br>1,527<br>1,868<br>1,606<br>13,825<br>10,460<br>1,224 | \$       | Level 2 | \$       | -<br>-<br>-<br>-<br>-<br>-<br>11,933 | \$<br>37,123<br>1,527<br>1,868<br>1,606<br>13,825<br>10,460<br>1,224<br>11,933<br>79,566                   |

## Notes to Financial Statements (continued)

#### 15. Fair Value Measurements (continued)

The following is a rollforward of assets classified as Level 3 of the valuation hierarchy:

| Interest in Yale University Endowment Pool: |              |
|---|--------------|
| Fair value at September 30, 2010            | \$<br>7,567  |
| 2011 Unrealized gains                       | 613          |
| 2011 Purchases                              | 3,753        |
| Fair value at September 30, 2011            | 11,933       |
| 2012 Unrealized gains                       | 9,514        |
| 2012 Purchases                              | 2,992        |
| Fair value at September 30, 2012            | \$<br>24,439 |
|   |              |

Fair values of the Hospital's debt are based on current borrowing rates for similar types of debt using undiscounted cash flow analyses. The fair value of the long-term debt at September 30, 2012 and 2011 is \$48.0 million and \$59.2 million.

The Hospital's alternative investments and common collective trusts are reported using the equity method of accounting (see Note 1).

#### 16. Subsequent Events

Subsequent events have been evaluated through December 21, 2012, which is the date the financial statements were available to be issued. No events have occurred that require disclosure or adjustment of the financial statements.

#### Ernst & Young LLP

#### Assurance | Tax | Transactions | Advisory

#### About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services.

Worldwide, our 167,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity.

Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. This Report has been prepared by Ernst & Young LLP, a client serving member firm located in the United States.

